



HECM Service Provider Procurement R-2009-HR-00073

1

Industry Briefing

TURN OFF CELL PHONES

HOLD QUESTIONS UNTIL Q&A

DO NOT LOOK AHEAD IN HANDOUT





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2

Industry Briefing March 20, 2009





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3

Opening Remarks Meg Burns, Director, Office of Single Family Program Development





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4

**Welcome
Jennifer Awkard,
Contracting Officer**





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5

Introduction Kris Lasley, Chairperson





Agenda

6

- Introduction
- Project goals and objectives
- Results Expected
- Initial Timeline
- Individual Program Requirements
- Q&A

Finalize when set



Goals

7

Our focus for improvements in the HECM process

- Consolidate, integrate and automate all HECM functions into one seamless end-to-end process
- Address concerns identified by auditors
- Address industry standards and best practices
- Reduce erroneous data caused by multiple data entry points, several of which are manual



Objectives

8

Our focus for improvements in the HECM process

- Automate manual processes
- Integrate functions to improve interoperability
- Strengthen funds control, accounting operations and financial reporting
- Improve reporting capabilities for the performance of the HECM program



Benefits

9

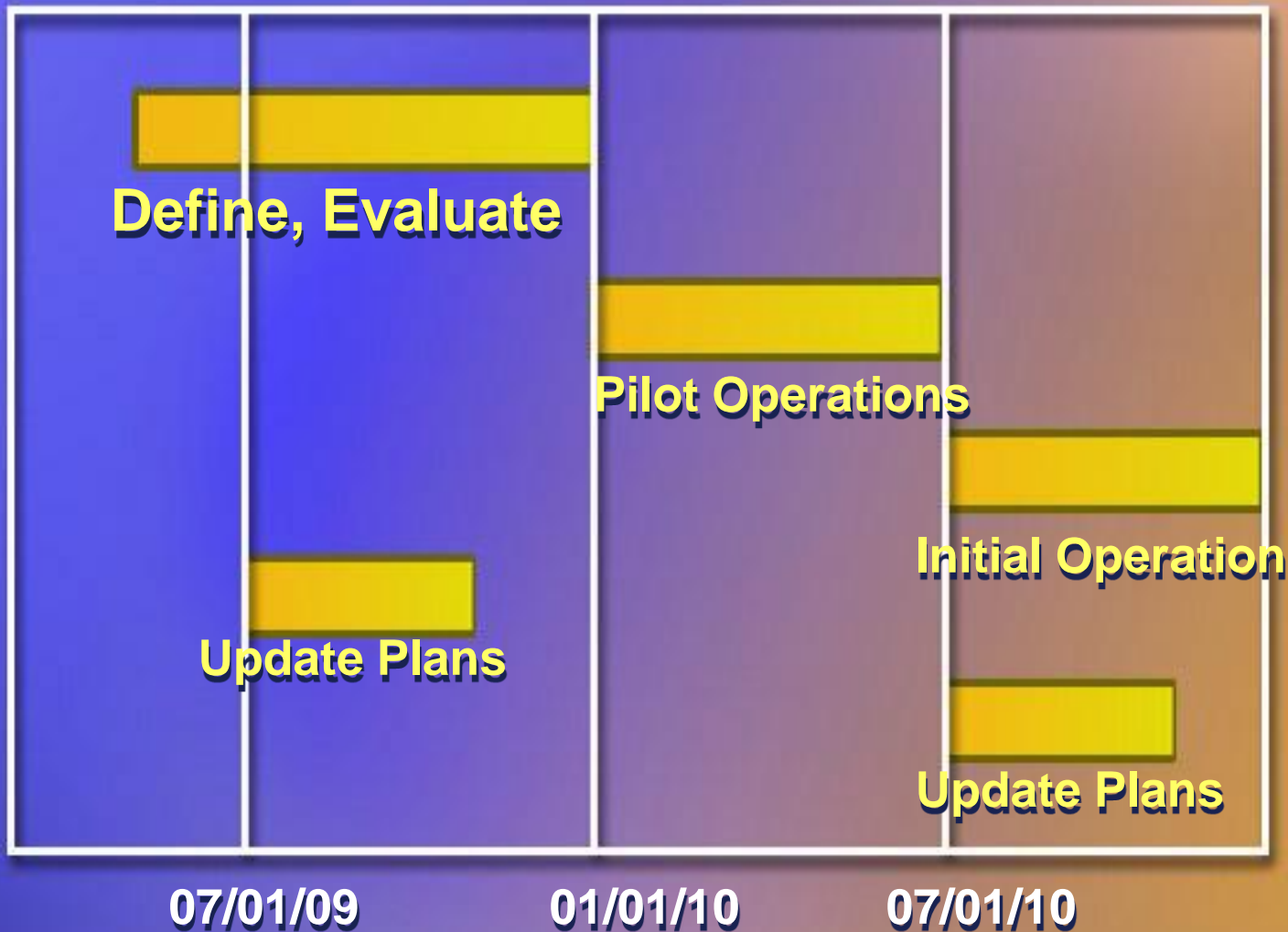
A HECM Service Provider will:

- Automate interfaces for improved reporting
- Provide timely support for financial statement audits at both the FHA and HUD level
- Streamline fragmented functions and automate manual business processes



Initial Timeline

13





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11

HECM Overview Ed Szymanoski, HECM Specialist





HUD's Financial Management of the HECM Program

12

- HUD does not lend money: HECM insures private lenders against losses
- Encourages lenders to offer reverse loans
- Offers highly competitive limits on cash advances
- Protects borrowers from lender failure to advance funds
- Risk levels managed by limits on loan advances to borrowers
- Cost of insurance paid by premiums assessed on all borrowers



Concept of Principal Limit

13

- *Principal Limit Factor* Times Adjusted Property Value (Maximum Claim Amount) Sets Each HECM Loan's *Principal Limit*
 - Factor is Like a Maximum Loan-to-Value Ratio
 - Factor Varies by Interest Rate and Borrower Age
 - Contains Imbedded Actuarial Assumptions
 - Loan Termination Rates
 - House Price Appreciation
 - Upfront and Annual MIP
 - Principal Limit Factors were Designed to Break-Even
- Principal Limit Controls the Amounts and Timing of Cash Advances on a HECM
 - Net Present Value of All Cash Advances Must Not Exceed the Principal Limit
 - Once Borrower Reaches Principal Limit, Cash Advances Stop



HECM Principal Limit Factors

for Selected Ages and Interest Rates

14

Interest Rate *	Age of Borrower at Loan Origination		
	65	75	85
7.0%	0.489	0.609	0.738
8.5%	0.369	0.503	0.660
10.0%	0.280	0.416	0.589

* Expected Rate (e.g., 10-Year Treasury Rate + Lender's Margin)

Factor increases with age

Factor decreases
with interest rate



How Principal Limit Factors Determine Payment Limits

15

75 Year Old Borrower and 7 Percent Expected Interest Rate

Appraised Value & Maximum Claim	\$ 100,000.00
Times Principal Limit Factor	0.609
Initial Principal Limit	60,900.00

Less:

Upfront Premium	(2,000.00)
Loan Closing Costs	(3,000.00)
Servicing Fee Set Aside	(4,084.96)
Initial Cash to Borrower	(1,815.04)
Net Principal Limit	50,000.00

Maximum Monthly Tenure Payment (Without a line of credit)	367.20
Maximum Line of Credit (Without monthly payments)	50,000.00



HECM Program Statistics

16

- Most HECMs terminate without a claim
- Some HECMs will terminate with a claim before assignment (Shortfall from sale of property)
- If loan balance reaches 98% of Maximum Claim Amount, loan is assigned to HUD
- The number of loans insured each year has increased from 157 in 1990 to over 112,000 in 2008
- Total insured loans exceeds 450,000 today
- Between now and 2025, individuals in the HECM eligible age groups are projected to increase significantly



What the Future May Hold Rising Demand

17

- According to the 2005 American Housing Survey
 - 17.8 million US homeowners headed by person age 65+
 - 14.8 million are potential HECM borrowers
 - 12.1 million had no mortgage debt
 - 2.7 million had mortgage less than 40% of home value
- Between 2005 and 2015 Joint Center for Housing Studies of Harvard University projects
 - Owner households ages 62 to 69 will increase by 53%
 - These are the first of the large post-WWII “baby boom” generation



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18

Loan Origination and Set Up Donna Tomposki, Single Family





General Origination Data

19

Origination Loan-Level Data Collection

- ❖ Borrower Characteristics
- ❖ Property Characteristics
- ❖ Loan Characteristics
- ❖ Lender Information
- ❖ Origination Functions



Borrower Characteristics

20

■ Loan-level Data Collection

- Mortgagor and Co-Mortgagors' SSN
- Date(s) of Birth, Death
- Age(s)
- Ethnicity
- Gender(s)
- Title Held As
- Address of current principal primary residence
- Prior FHA insured mortgages
- Borrower's Power of Attorney
- Borrower's Trustee



Property Characteristics

21

■ Loan-level Data Collection

▪ Property Type

- Manufactured Home
- Modular Home
- Condominium Unit
- Co-operative Unit
- Townhouse
- 1-4 Detached Single-Family
- Attached & Semi Detached Single-Family
- New /Existing

▪ Appraised Value

▪ Number of Appraisal(s)

▪ Zip Code Validation



Loan Characteristics

22

■ Loan-level Data Collection

- Transaction Type
 - HECM for Purchase
 - Traditional HECM
 - HECM to HECM Refinance
- Product Type
 - Fixed Rate Mortgage (FRM)
 - ARMs
 - Closed-End
 - Open-End
- ARM Index
 - CMT
 - LIBOR
- ARM Periodic Adjustments
 - Monthly
 - Annually
- Margin (remains the same for life of loan)
- Note Rate & Expected Rate



Origination Functions

23

Data Transfer from CHUMS/FHA Connection

- Check Borrower SSN for duplicate case number assignment and property address
- Validate SSN and Date of Birth to verify eligibility

Loan Set-Up

- Check eligibility of property type per transaction type
- Establish set-up of set asides for repairs, property taxes and insurance
- Validate case status if not endorsed within prescribed timeframes and make notification(s)
- Properly validate payment of MIP
- Track loan status during mortgage life-cycle



Origination Functions

24

■ Payment Options & Draw Schedule

- **Types**

- Term, Line of Credit, Tenure, ComboTerm-Line of Credit, Combo Tenure-Line of Credit

- **Distribution frequencies**

- **Calculation of principal balance**

- **Plan changes**

- **Capture set aside and fees**

- **Payment of monthly MIP**

- **Tracking monthly disbursements**



Origination Functions

25

Loan Calculations

- Accurately calculate Principal Limit (PL)
- Capture and retain all principal draw details
- Effectively determine Maximum Claim Amount (MCA) by lesser of sales price, appraised value, or FHA mortgage limits for one-family residence
- Capture and retain prepayment on closed-end loans, which prevents re-draws



Lender Information

26

- Using the FHA Mortgagee ID, SP maintains data pertaining to case number assignment and the various lender categories including:
 - Sponsor
 - Originator
 - Servicer
 - Sub-Servicer
 - Investor (Note Holder)



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27

Loan Servicing Colleen Weiser, Asset Management





General Servicing Functions by Servicers

28

Schedule Payments
Process Line of Credit Requests
Process Repayments
Track Payment Disbursement Methods

Track Payment Plan and Interest Rate Changes
Generate Statements of Account, Annual Statements, 1098s
Track Payments and Interest, MIP and Service Fees
Collect Payment for Taxes and Insurance - Escrow Set-aside

Perform Occupancy Verification
Track Property Maintenance and Repair Administration
Process HUD Assignment Option and Default Administration



Disposition of Insured HECMs (by the servicer)

29

- When loan becomes due and payable under terms of the mortgage, servicer must allow borrower or estate to sell property, if they so desire, or it may be deeded back to the servicer, if the title is clear
- If property is not sold or deeded to servicer, servicer will initiate foreclosure and bid lesser of appraised value or full debt at foreclosure sale
- If property is vacant during this process, servicer is responsible for preserving and protecting it
- If servicer is successful bidder, they must dispose of property and only file a claim on the FHA insurance for any shortage after sales proceeds are applied to loan balance



Assignment to HUD

30

- **Servicers have the option to assign a mortgage to HUD when the outstanding loan balance reaches 98% of the Maximum Claim Amount, or if the next payment, when added to the outstanding balance, would equal or exceed 98% of the maximum claim amount, provided all other HUD criteria is met:**
 - **The Servicer must be current in making payments to the borrower**
 - **The Servicer must be current in making payments to MIP, including interest and late charges, if any**
 - **Title must be clear and marketable**
 - **The loan may not be in a due and payable status**



Assignment is Optional

31

- To re-iterate, assignment is not a requirement
- It is an option that allows servicers to limit their risk in regions where property values do not continue to support additional balance increases
- Some servicers elect not to assign loans to HUD
- Once HUD accepts assignment, its contractor services the loan under the same guidelines as the lenders



Disposition of Assigned HECMs (by HUD)

32

- When the loan becomes due and payable under the terms of the mortgage, HUD acts much the same as the servicer.
- There are two exceptions:
 - If the property is vacant, HUD is responsible for preserving and protecting it through its Marketing and Management (M&M) contractor
 - If HUD is the successful bidder, the property is conveyed to the Real-Estate Owned (REO) division for disposition through the M&M contractor

These are the only instances in which HECM loans fall under the responsibility of HUD's REO division – the SP will need to be able to track the properties through the sales process



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33

Claims Nneka Faggett, Office of the FHA Comptroller





Claims Overview

34

Currently a manual process

- **One claim form (HUD-27011) services all claim types**
- **Each claim is verified based on submitted required documentation and timeframe compliance**
- **Once verified each claim is entered into an Access application**



Claims Overview

35

Five types of claims that a mortgagee may file:

- | | |
|-----------------------------|---------------|
| ❖ Demand Assignment | Claim Type 20 |
| ❖ Foreclosure/ Deed-in Lieu | Claim Type 21 |
| ❖ Optional Assignment | Claim Type 22 |
| ❖ Mortgagor's Sale | Claim Type 23 |
| ❖ HECM Supplemental | Claim Type 24 |



Claims Statistics FY2008

36

Claim Type	Cases	Amount
❖ Demand Assignment	0	\$ 0.00
❖ Foreclosure/DIL (21)	546	\$ 22,474,433.09
❖ Optional Assignment (22)	2099	\$ 320,043,507.15
❖ Mortgagor's Sale (23)	94	\$ 2,843,494.68
❖ Supplemental (24)	60	\$ 354,561.92
FY 2008 Totals	2799	\$345,715,996.84



Requirements for Claim Type 20 Demand Assignments

37

- ❖ HUD 27011, Parts A-E
 - ❖ with original or approved electronic signatures (no stamps allowed)
- ❖ Original Mortgage Insurance Certificate (MIC) or other acceptable forms of proof of insurance
- ❖ Original title approval letter
- ❖ Copy of Demand Letter

Note: Claim must meet all time requirements to be eligible for debenture interest.

If deadlines are not met, interest will be curtailed.



Requirements for Claim Type 21 Foreclosure or Deed-in-lieu

38

- ❖ HUD 27011, Parts A-E
 - ❖ with original or approved electronic signatures (no stamps allowed)
- ❖ Original Mortgage Insurance Certificate (MIC) or other acceptable forms of proof of insurance
- ❖ Copy of full appraisal
- ❖ Copy of the signed HUD-1 Settlement Statement (if sold)
- ❖ Copy of all invoices/documents to support claim

Note: Claim must meet all time requirements to be eligible for debenture interest.
If deadlines are not met, interest will be curtailed.



Requirements for Claim Type 22

Optional Assignment

39

- ❖ HUD 27011, Parts A and B
 - ❖ with original or approved electronic signatures (no stamps allowed)
- ❖ Original Mortgage Insurance Certificate (MIC) or other acceptable forms of proof of insurance
- ❖ Copy of the loan history that shows the unpaid loan balance
- ❖ Title Submission Certification
- ❖ HECM Assignment Submission Certification
- ❖ Copy of the assignment to HUD

Note: Claim must meet all time requirements to be eligible for debenture interest.

If deadlines are not met, interest will be curtailed.



Requirements for Claim Type 23 Mortgagor's or Estate Sale

40

- ❖ HUD 27011, Parts A-E
 - ❖ with original or approved electronic signatures (no stamps allowed)
- ❖ Original Mortgage Insurance Certificate (MIC) or other acceptable forms of proof of insurance
- ❖ Copy of the loan balance history
- ❖ Copy of the full appraisal
- ❖ Copy of the HUD approval for short sale or signed HUD-1

Note: Claim must meet all time requirements to be eligible for debenture interest.
If deadlines are not met, interest will be curtailed.



Requirements for Claim Type 24 Supplemental Claim

41

- ❖ HUD 27011, Parts A-E
 - ❖ with original or approved electronic signatures (no stamps allowed)
- ❖ All receipts/documentation to support the additional expenses being claimed
- ❖ Copy of the original claim

Note: Claim must meet a 6-month timeframe or the supplemental claim will be denied.



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42

**Accounting
Deborah Toribio,
Office of the
FHA Comptroller**





Accounting

43

The HECM SP must record **all** applicable accounting transactions according to federally accepted accounting standards (laws, regulations etc).

- United States Standard General Ledger accounts (USSGL)
- Federal Generally Accepted Accounting Principles (FEDGAAP)
- Federal Credit Reform Act of 1990



Accounting Objectives

44

At a minimum, the BSP should:

- Obtain, store and display financial information about HECM Premiums, HECM Claims, HECM Notes and HECM foreclosed properties acquired by or in custody of HUD
- Track the status of HECM premiums, claims and notes
- Provide support for accounting operations to FHA
- Process HECM collections and disbursements via Treasury, commercial banks (e.g. Lockboxes and Zero Balance Accounts) or other systems (e.g. Pay.gov)
- Provide the capability to exchange data with a number of HUD and non-HUD systems (e.g. Treasury and commercial banks), including the existing FHA Subsidiary Ledger on a daily basis
- Provide user-friendly navigation for users at all skill levels
- Strengthen funds control
- Strengthen accounting operations
- Strengthen reporting



Benefits

45

The BSP will

- Capture transactions and update the General Ledger daily
- Automate interfaces to other FHA systems
- Provide timely support for financial statement audits at both the FHA and HUD level
- Automate manual business processes



Accounting Activity

46

1. Maintain Accounting of Case Inventory
2. Establish and Age Receivables, Receive and Post Collections and refunds
3. Prepare Payables and Post Disbursements
4. Maintain HECM Subsidiary Ledger
5. Produce subsidiary reports to support daily and monthly reconciliations to the General Ledger

All accounting activities should be recorded using the correct chart fields

- Case Number
- Section of the Act (SOA)
- Fund
- Endorsement Date
- Cohort Year
- Vendor Category
- Case Status



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47

Reporting Karen Chang, Office of Evaluation





Reporting Requirements

48

The HECM SP solution will:

- **Maintain and improve the HECM loan database**
- **Be the primary data source for all cash flow model analytics, reports internal and external to HUD, and ad hoc requests**
- **Ensure consistency and data integrity across numerous data source systems**



Purpose of HECM Loan Database

49

- **Central Repository for all HECM loan level data**
 - Single Family Data Warehouse – HECM Case Detail, HECM Claim Detail, HECM Transaction Record, IDB1, and IDB1 Co-borrower
 - SAMS Conveyance and SMART Notes Report
 - Macroeconomic Data
- **Consolidates the data input using SAS software**
- **Processes the data for reporting and analytical purposes**
- **Ensures consistency across data sources**
- **Provides output tables used to calculate actual insurance-in-force, assignments, survival probabilities, claims, and other loan performance assumptions**





Input Data

50

■ Single Family Data Warehouse

- HECM Case Detail – Case level data for HECM loans
- HECM Transaction Record – Transaction level data
- HECM Claim Detail – Supporting claim data
- IDB1 – An integrated database of five legacy systems which includes informational data for 250 of the most frequently used attributes for both HECM and Single Family loans
- IDB1 Co-borrower – Contains co-borrower information to support IDB1



Input Data - continued

51

■ MS Excel Files

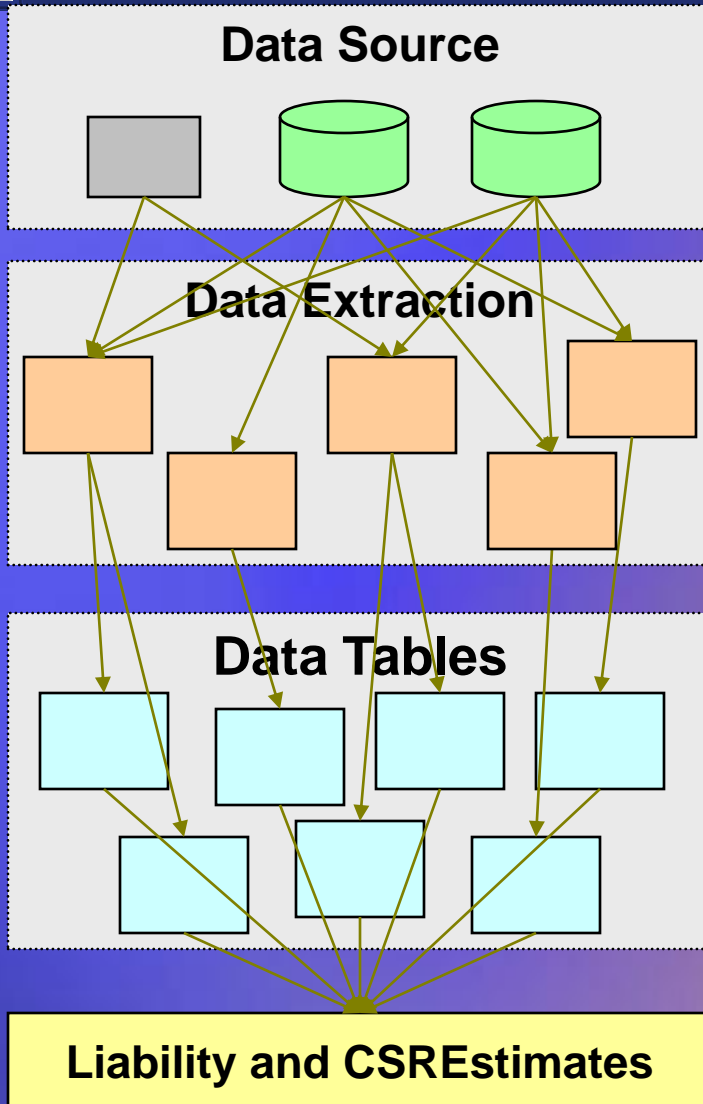
- SMART Notes Report – National Servicing Center
- SAMS Conveyance Report – HUD Asset Management

■ Macroeconomic Data

- OFHEO
 - Historic House Price Appreciation
- Global Insight
 - 1 and 10-year Treasury Rates
 - Projected House Price Appreciation

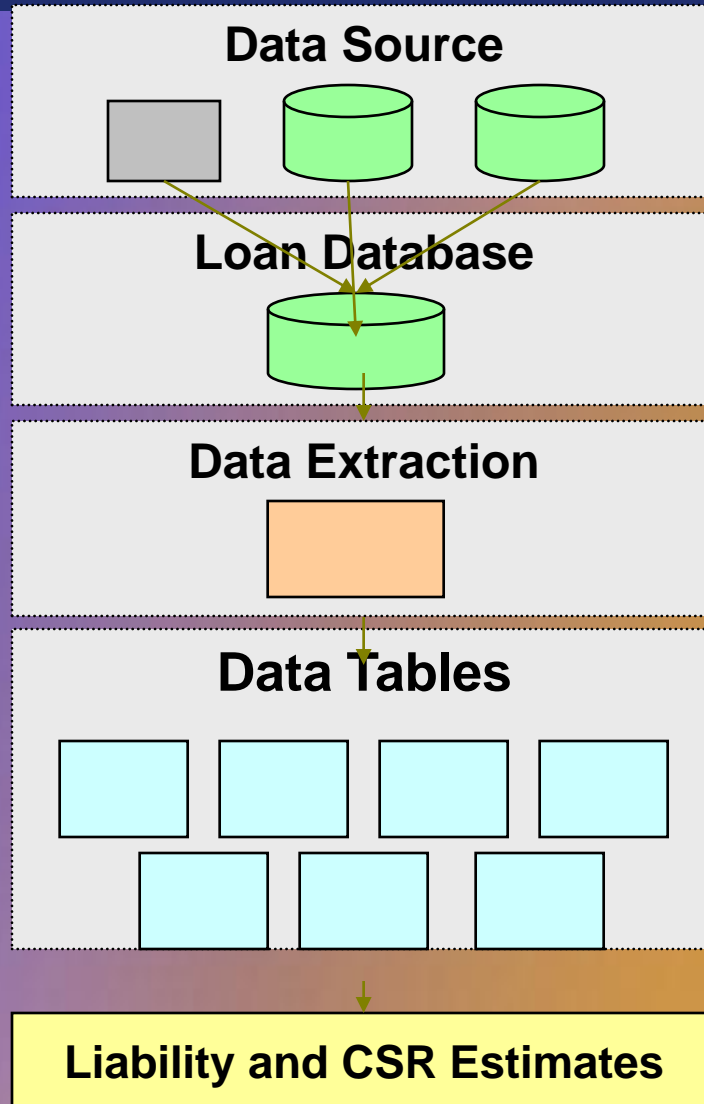


Pre-Database Flow



Post-Database Flow

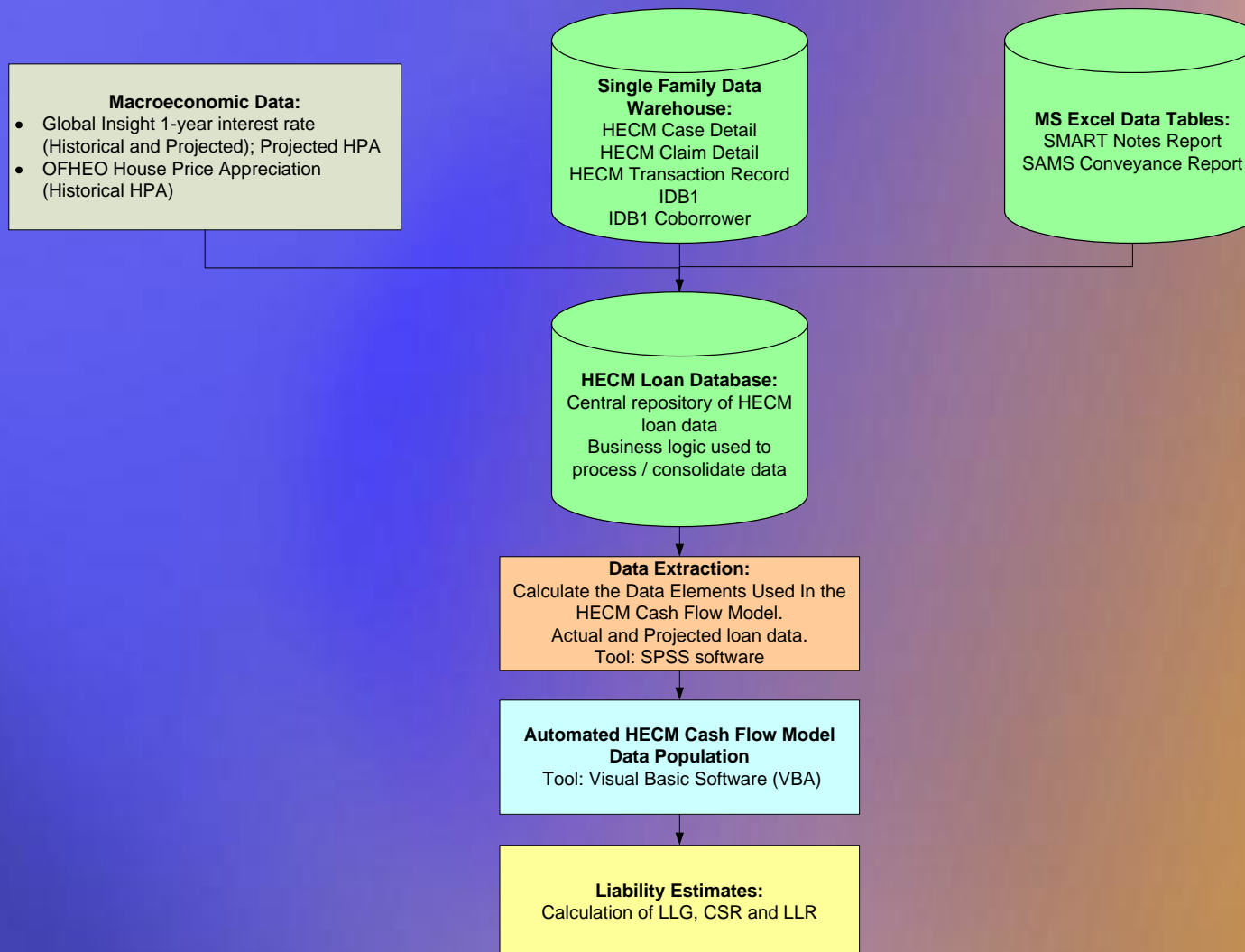
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FY 2008 Cash Flow Model Process Flow

53





Data Availability & Reporting

54

- Office of Evaluation (OE) receives HECM related questions from Management, OMB, IG, CBO, GAO, and Congress
- OE staff have to analyze HECM data and report quickly (most requests are turned around within 2 days)
- HECM data used for analysis has to be readily accessible to OE staff
- Recurring requests should be available in canned reports



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55

Q & A

Kris Lasley





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56



Questions & Answers